

Vivo Energy plc

2019 Half Year Results

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Transcript

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Christian Chammas: CEO
Johan Depraetere CFO
Giles Blackham: Head of IR

Giles Blackham: Good morning, everybody. Thanks to those who've joined us in the room and those who are dialling in and listening via the webcast. This is Vivo Energy's 2019 interim results presentation. We will run through a presentation that's on the website. If you are just dialing in as a conference call, Christian will open that up, our CEO, and then Johan, our CFO, will talk through the detail before Christian comes back at the end to provide some more colour on how we're moving the operations forward. We'll then open up to Q and A in the room and then to those on the line. So, please bear with us as we get through your questions. And with that, Christian, I shall hand over to you.

Christian: Good morning. Do you hear me?

Christian: Good morning. Oh, okay. We heard you. Okay. Thank you very much for coming. I know some of you are online, welcome as well. The format is now fairly drilled. I will start by opening the show, walk you through a few highlights, put a bit of colour as ... was that you who were saying colour? Colour and then I will pass over to Johan who didn't talk serious things like figures cause you only here for figures aren't you? You know the rest. The colour is my domain. Anyway, back to serious matters. If we can go through the next slide please. Thank you. Are we on the right one? I think we are. In summary, this is the agenda. I will do introduction, Johan financial performance review. I'll then conclude by updating, and then we will be open for questions and answers. So next please.

Christian: Alright. I think you've known us now for quite a while. More than a year and a half, and you know that we're always on the move, and we keep this business moving, and in the last six months that's what we've been doing. We have closed the Engen transaction. It's exciting. We have eight new countries and on top of that, too for pleasure, we installed the new ERP in 11 countries and two more are coming next week, the big ones like Morocco and Tunisia. And by then we would have done our 15 original Shell countries and that will be behind us. Then, we'll have to prepare ourselves to do the same thing in a years time with the Engen countries. So that's a exciting because that tool is a modern tool. It allows us to manage better, to see better, to have better data, to analyze the data, better to use modern systems.

Christian: You can plug in like site automation, like loyalty. And then on top of that to understand what is coming out. So it's not just garbage in, but it's quality information coming out. The old system was dying, and we had to do it. In the same period while we were doing that, our business grew, the volume grew by 8%, but what is important, and if you remember last year we had rock and roll when he came to margins, the margins have finally stabilized, and now we have stability in that and we can even see a growth of those margins that allowed us to deliver 200 ... Sorry, I have ... It's not you giving me that. It's allergies. We

delivered 212 million dollars of adjusted EBITDA, which is 4% higher than last year. So, if you take into account what happened in Morocco, so not only did we absorb that, but we still grew the EBITDA.

Christian: Alright. And that allows us to also declare an interim dividend and 4.1 cents per share, which is nice to have as most of our shareholders like that as well. The increase in the adjusted EBITDA, as I said, was in spite of the 30 million hit in Morocco compared to last year, so it's not a small hit, but that is behind us. So far we absorbed 60 million hit because of the Morocco adjustments is the word, and we have managed to grow the business and grow the results. So, nice to have and pleasing to be able to talk about it. If we move onto the next slide, if I could put the result in context, our business, of course, is not immune to outside elements and there are quite a few that happen, and it is the way we all operate. I mean Africa or elsewhere.

Christian: There are external effects. The important is that our business can overcome that. Our model enables us. We are diversified, and we absorb, and we take headwinds when they come, and we move on and adjust. This diversification as we talk about it allows us to do that. It is that ability to offset some weaker markets and fast track the ones that are in motion. The new Engen countries have potential, and we are going to drive them through their maximum. That will help us, of course. Morocco retail. Also in view of what has happened in the past year, it only represents now 10% of the group EBITDA. If you seem to remember it was as high as 29% a couple of years ago to a year and a half ago. So, it's nice to have, and it just shows that we have absorbed it and it's now not as such a heavyweight in the overall equation.

Christian: One area we can't mitigate on is of course the barrel. It's a bit of a yo-yo when you see it was as high as \$75. It went down to ... was it 54 at the beginning of the year? And now it's back to about 60. So, these are big swings, right? And we feel them, whether we like it or not, in activities like resellers. These people who buy from you or import products in certain countries like Kenya, well, suddenly when they see the barrel collapsing, well, they stop buying because they're sitting on big stocks. Your own dealers, of course, when they see the barrel coming down ... I'm talking about retail dealers. Okay. They slow down. They say, "Well, tomorrow is going to be cheaper." There is a slow down. It only lasts maybe 15 days, but then you move on, and over a period of 12 months it disappears.

Christian: But these impacts are there. On a period of six month, when you see this happening twice, end of December and in June, believe me, why you feel it, right? But over 12 months is going to be diluted over ... We had a slide last year, which is over 15 years. It's a blip in the whole equation. So, what is important even with the Morocco effects, the retail EBITDA remained flat, which is good. Alright? And that is our strength. Finally, a couple of weeks ago on Morocco, we issued a release because of an action by the competition council. Well, we have replied to the grievances of this council on a certain number of points. We are cooperating. For the time being, we have replied a hundred pages plus another

300 pages of annexes, and we'll leave them digest. When they come back we will discuss. Next, please.

Christian: As I say, we don't stand still, and we continue our record of opening virtually a one site every three days, and we've opened 41 in the first half of the year. So, that's good to have. We also in parallel open 50 food offerings outlets on different sites. So, that's also important. We signed an important joint venture with KFC, mainly for the time being for East Africa that's in three countries with the potential to grow into another four or five countries. So, that's an exciting opportunity because you are now partners with a big group, and you can drive it faster than we were able to do. Excuse me.

Christian: At the same time we kept focus on what is important. Our environment, safety, security of our operations, and we have a very good track record. If you look at the figures, we are top of the class. Okay. And we will continue. It is fundamental because that is number one and allows you to continue building what we want which is a gold reputation. Right. And that is the objective of the company.

Christian: I talked about the ERP, but I'm sure Johan will go into that detail. I would like to say something important about the ERP. Even people like IBM and SAP were completely taken aback by the speed at which we rolled it out and by how much we squeezed them when it came to the cost. We did it ourselves. We had very strong teams from the business. Right? So, it was people who knew what they were talking about. We did not delegate it. We controlled it, and we made sure it was rolled out professionally and to our demand. And we did not do it to be spoke because you know damn well the more you be spoke it, the more it would cost you when they upgrade it. So, we made sure it remained as close to the standard package as possible. And that is why we were, well I guess, effective, and they they now use us to publicize the tool.

Christian: I think I finished Johan. It's all yours. Thank you.

Christian: Well, water now.

Johan: Thank you, Christian, and good morning. As Christian said, there was a resilient start to the year, and we're on track to deliver the objectives for 2019. The new Engen markets drove the big increase in volume during the first half with organic volumes behind where we would like to have it. And I will talk to some of those reasons. While margins are lower than the previous period as expected due to the impact of Morocco, they are ahead of where we guided for the year due to the hard work of the teams of our business and also the discipline that we imposed in the countries as Christian referred to the reseller business. So, together these led to the adjusted EBITDA for the year up 4% to two hundred and twelve million dollars.

Johan: Going to the next page, which is a familiar slide. As you know, we operate across three segments with retail and commercial being the big drivers of volume and EBITDA of the group.

Johan: You can see that even after Engen and all these results include the four months of Engen as we explained or we we guided for in March retail reminds the driver of the business accounting for just under 60% of adjusted EBITDA. We will go into each of the different segments, but as you can see at the bottom that each of the segments did show year on year EBITDA growth. So, let's start with retail on the next page. This is a heat map showing the Shell branded countries in terms of year on year retail volume growth. As we said, we, we have 8% year on year growth overall as a group with 2% organic from the Shell branded countries. So, you can see the dark greens are over 5% with the pinkish, reddish actually showing a negative growth. So, some countries performed really strong like Senegal and Mali showing growth rates over 5%.

Johan: However, we also had countries, four countries specifically, where we showed negative growth, and each of them have a specific reason which I will now explain. We start with Tunisia in the north. As many of you know, Tunisia is going through a tough political and economic times and overall you know market is down, and so, unfortunately, our market is down as well. However, we've been able to increase our market share and just to add that in addition to the economic challenges, there was also nine days of strikes that impacted our volume in the first half. Moving onto the east where we have Uganda showing net negative growth. As you know it's one of our three deregulated markets there. We actually decided to go for margin rather than volume, which resulted in very strong financial results for the country. However, despite, we suffered a bit on the volume but with made up on very strong margins as we're able to, you know, premium price our fuel compared to the independents.

Johan: Then moving on to Guinea, back to the west, it's actually underlying stories very strong. We show a 15% year on year growth for the retail business. However, we also did the reclassification of some white pumps that used to sit in retail that we moved to commercial. So it's kind of a one off effect that from next year we should not see any more. And then, finally, Ivory Coast as well as the last country with with negative growth, there continues to be some industry-wide issues. You remember, we talked about the refinery issues. Unfortunately, it took longer to restart the refinery. So, that had an impact on supply. We also had our biggest sites being rebuilt in the first half of the year which, again, impacted the volume significantly. But from the second half we expect in Ivory Coast the these challenges to be removed.

Johan: Moving on to the next slide, we talked about overall volume growth, but just wanted to highlight a few key points. You can see that premium fuel representing 3% actually grew 41% year on year. We talked about that last year. It's one of our key focus as we make higher margins on that. So, it moved from one to 3%, especially in the countries, in the deregulated countries as well as Tunisia, which allowed us to price a premium at the pump. You can also see that

despite the Moroccan margin drop ... actually we dropped 13% or \$10 in the Shell branded countries, the overall growth cash profit remained flat year on year. So, it was overall the volume from Engen as well as you can see the 3% accretive margin coming from the Engen countries. Going forward, we see that the retail margins remain in line with the first half, and we have now gone through the full 12 months of Morocco adjustments. So, we should see the overall gross cash profit increase in the second half of the year.

Johan: Moving onto commercial. Headline volumes are clearly up to the Engen transaction with the underlying Shell branded countries showing flat growth. We actually took the decision in the first half to protect our margins and step back from the resale business, especially in east Africa and focus on profitable business. And in aviation and marine, which are also the volatile business, the volume was flat. Actually, the volume was up in aviation but was down in marine. So, year on year flat but with stronger margins, and you can see that the margins in commercial remained at \$47 per metric cube. So, that drove the segmental EBITDA up 10 percent year on year.

Johan: Moving on to lubricants. As just a reminder, this is the pure distribution result from lubricants. It excludes the pickup from the joint venture, the equity pickup from Shell Vivo lubricants of which we hold 50%. You can see overall volumes were flat with Engen volumes actually offsetting a decrease in the Shell markets. However, the margins for Shell branded products, were back to the \$550 per cube, which we mentioned last year as we were recovering the increase or the drop in base. So, we're now back at where we used to be. However, unlike retail Engen, lubricants have a decreative or a slight negative impact on our margins as they they're sold at the lower margin. So, the margin is basically flat.

Johan: Moving on to kind of a waterfall showing our change in EBITDA. As we said, we saw that \$30 million like for like reduction from last year due the lower margin in Morocco. However, what did we do to compensate for that? We clearly drive the other markets very hard delivering \$24 million in adjusted EBITDA. That also included some cost savings. So, we were able to reduce our SGNA as well as had some synergies of \$5 million coming from the Engen transaction. And then of course we have the \$14 million of adjusted EBITDA coming from the Engen countries, which shows the increase by \$8 million in EBITDA.

Johan: If we look at net income, again, the waterfall, we clearly have the uptake of the underlying profit. However, due to finance expenses, as well as as some higher tax expenses, we see a decrease in net income. The finance expenses, 10 million of the 14 million is due to the swaps we have in place whereby we moved our floating interest rates to fixed interest rates. Last year because interest rates were high, we had a gain of 5 million in the finance expenses. As you all know, interest rates have dropped. So, we actually took a loss of 5 million. So, there's a \$10 million difference in that. And also there's a slight increase due to the payment on the RCF for the Engen transaction. And then the tax rate is our effective tax rate went up to 39%. Two main reasons, one, the Engine countries have a higher tax rate as well, Morocco was hit by an additional two and a half

percent corporate income tax rate imposed last year. So that is now hitting our tax rate and we assume that the tax rate will remain 39% for the year.

Johan: Moving on to the cashflow, which due to timing issues of some large customer payments is actually not reflective of the underlying picture. You can see that especially the third line working capital did increase, but this is a, as I said, a temporary increase. There was one delayed payment of, one of our largest customers that, because we actually re-signed a contract, there was some invoicing issues and unfortunately the payment came in July, which was \$43 million. So big amount that now has come into the bank at the beginning of this week.

Johan: And then the second element is the supply in Kenya whereby, it's a tender system whereby you purchase products for the whole industry because of the timing of us winning or not winning tenders. Again, we were hit in the second quarter. However we have been winning tenders and again, if you look at the end of August, that would be a swing of \$50 million reduction in working capital.

Johan: So in summary, we're still structurally negative working capital. Nothing has changed. It's just the timing of these payments that that lead to these movements.

Johan: Then capex started here a bit slower than 2018, just under \$50 million continued to, as Christian said, to finalize the ERP, which is the bulk of the special projects. So given the slow start, we expect to come in a bit below our original \$150 million of guidance. But this will not impact at all the rollout of 8,200 sites. And as Christina mentioned, we have already opened 41 sites in the first half.

Johan: Then moving on to leverage. As always, we are well financed and have a strong balance sheet. However, due to the timing issues of the working capital and a slight increase in the longterm debt due to the engine transactions, we increased the leverage to just over one times. But again given the working capital timing issues, we expect to improve this number in the second half.

Johan: And then finally a few words on the outlook. We had a solid start to the year and are on track to meet our objectives in terms of volumes and we would expect to be at the lower end of the range given the first half performance. So how we will do that? Clearly we'll have the full six months of engine coming in compared to the four months in the first half as well as retail volumes will pick up in in the second half.

Johan: On the margin we delivered \$70 per metric cube and now we expect to be at the upper end or slightly ahead of the previous guidance of the high sixties per metric cube. And then finally we talked about capex, where we're likely to fall marginally short of the \$150 million, but we'll deliver the 8,200 sites per year. So that's not on the financials. I now hand it back to Christian for the conclusion.

Christian: Thank you, Johan.

Christian: Could I have the next slide. I've already said thank you. Thank you, Johan. As I said, we delivered the resilient performance. Johan went through quite a bit of granularity to explain to you the swings here and there be it on cash, be it a margin, be it on volume. But all in all, I think we can be satisfied that we have a resilient and a strong first half behind us and now we can look forward to any bullish. second half.

Christian: Morocco is behind us. So it took a while to digest, but that's it. That's why I'm coughing, it was a difficult digestion. Johan has taken you through quite a few specifics, and I thank him. That's the nice part. So he does it. On the commercial side, we talked about quite a few points that are cyclical, and that our business is not a linear business. Whether we like it or not, there are cycles.

Christian: And when you see uncertain markets, people dumping stocks and you sit down and you refuse to follow the pattern, well I'm sorry, it hits your volumes. But it does not hit your margins. So it's a good arbitrage between that and that. And I prefer keeping my dollars in my pocket rather than giving them away to somebody else because tomorrow you will come back to me and say, why did you give away the dollars.

Christian: So we don't chase unprofitable volumes. We make sure we run after the good ones. And then it is not in our DNA. All our teams now in the last seven years have been built and the culture is make sure we go after good business. And automatically we stop when we see things happening like that and they happen in Kenya, they happen in Uganda. They happen to a lesser extent in Morocco. But it is happening when you have such massive fluctuations in barrel prices.

Christian: Next. So, so far what is important is that we will continue doing what we know how to do and do well. We will continue growing, of course, our retail business. We will also continue growing our non-fuel. In the first half, it grew by 33% It's a massive growth, right? It's just the first year we have such a dynamic. And our premium fuels, which is something we started working on and I mean really aggressively, two years ago, two and a half years ago have shown 33% growth. And that, believe me, is significantly higher margins. And you're talking about a lot of dollars here.

Christian: SAP is now in place, and next week would be in place in 15 countries that would make our life easy, believe me. We had as I call it a donkey system in place with the green screen. I had never seen green screens in my life, but this was green. Today we will have a modern system which allows you to read better, to understand better, to extract better, and to have, I would say live data on which to react on. And we will use that to have good site automation, use loyalty effectively and drive the business more day-to-day.

Christian: We will be able to put stocks in consignment on certain sites where we have dealership issues and drive it. And these effects of stock variations, we will not worry anymore because there will be ours. Right. And we will manage it day by day and litre by litre. So it will enabled us to be a bit more proactive and react to events, which we couldn't do in the past.

Christian: We pushed very hard on commercial. We won quite a few tenders, aviation and mining. Mining, we won three major businesses in west Africa and I mean major, they are going to change our position further. And that was very exciting for the teams. One of them, they even went to Moscow, you know, to Burkina Bay and one Senegalese, and one Ivorian followed them to Moscow to negotiate the final terms. So I mean it's quite exciting for the team, imagine. And especially when they win.

Christian: So they came back with a tender. And we stole it from somebody I used to work for. So it was quite good, even better. So they came back and, see, we took it away from your previous employer. So anyway, that's exciting for the whole teams.

Christian: Finally engine, well, a lot to do, as you know, but massive potential. We've been visiting with Johan quite a few countries and every time we go somewhere we see, Yup. In a couple of years that is going to look like what we've done with Shell. Massive potential lovely opportunities and growth opportunities.

Christian: Engen of course is something that will bring value to the company. There are no major surprises, really nothing to stop me sleeping. I not sleep much, but anyway, I sleep as little as before. But anyway, it is good surprises. The teams need a refreshing, as I call it. We will work very hard on that and there are now people who have moved, people have integrated and all that brings a new dynamic, a new operational culture, which is ours to the new countries.

Christian: Broader awareness is pretty good in the engine countries, so that's something you don't have to work on. So that's nice to have. We have now to ramp up what I would call the the retail sites. We have to upgrade quite a lot. We have to make sure the standards become ours. They were bit below. But we are working very hard on that to make sure that it becomes a Vivo standard.

Christian: And basically, we will spend money in order to get it to grow. And when there is potential, when there is growth, yes we will go for it. The commercial business, as I said earlier on through the mining sector has massive potentials. Zambia, Zimbabwe, Tanzania, and Mozambique. We are not very big in these sectors. I'm talking about engine. We will go for it in the same way we'd go for it elsewhere.

Christian: And finally Zimbabwe, the country is currently in a difficult position. It will come out of it. We have taken necessary steps to protect our business and now we are waiting for things to stabilize in order to invest for the future. Again, it is the country where there is massive opportunities. Believe me, I was there and it is

surprisingly refreshing to see that there is more to come. I mean for us. And I hope more to come for the country.

Christian: Now we have set to the teams quite a few priorities for the next 12 to 18 months. They know, so it's quite quite clear in their mind be it the managing directors, the finance team, the commercial teams, the retail teams, the whole team. They know where we're going. We have already met them in Johannesburg a couple of months ago. We went through how we do things, how we want things to be done, rolled out. We have discussed the how to build the plan for next year, so they're all now I guess in the new mould.

Christian: We're meeting again in October where they'll come back with their proposals for next year. And, of course, we will challenge them. And at the end of the day, once we are convinced it will become their own plan and then we will have our own scorecard, we will measure all this and make sure that they deliver it.

Christian: A lot of work refreshing as I talked about it, shining Engen. The sites are tired, dusty, so we will de-dust and make them look shiny. I talked about mining, I talked about efficiency. All that at the end of the day should, improve the ROCE. Today the stocks that cash and all this was not managed the Vivo way. It will be in the weeks and the months to come. And we will make sure we ramp it up in the same way as we have ramped up our business in Vivo under the Shell brand. I'll take a drop of water.

Christian: So, in conclusion, another period of strong financial performance. We demonstrate quarter by quarter that we have resilience and we can face headwinds and move on and focus what I would call on the ultimate objective is to carry on growing this business and create better returns for our shareholders. And that is what we see.

Christian: We also progress day after day on integrating engine SAP, I talked about. Growing our business, putting in new solutions, be it, I talked about loyalty, I talked about site automation and that is a hell of a lot of more projects in hand. All that is to bring more value to our consumers because they are the ones at the end of the day that decide to come or not. And the more offering, the more options you give them, the better they feel and the more they come.

Christian: So in conclusion, yes, I'm excited about the month to come and I'm excited that we can continue growing our business and that we are delivering against what we have promised and we are going to meet the expectations. Thank you very much. Giles, the floor is yours.

Giles Blackham: Thanks Christian. Johan, we'll just open it up to questions in the room now and then, well following that, we'll go to questions on the line. So anyone want to start us off? Go ahead.

Nick Coulter: Thank you. Nick Coulter from Citi. So several, if I may. Firstly on the new sites that you have, could you break those down a little bit by geography and also whether they're company owned or dealer owned first?

Christian: Johan, I don't think I have that in my mind.

Johan: No, I mean geography, it's across, I think we opened six in the Engen-branded countries. So, the remaining 35 across the other 15 countries. CO or DO we'll have to come back to you on that. No deviation from our 65. We still stick to our 65 35 split.

Christian: No deviation, no.

Christian: Sorry. What is pleasing to say is that even in what you would define as big mature countries like Morocco, they have massive projects. I was there two weeks ago and when you see, they're coming back to ask for more money. And they're lucky this year because, as you see we're not spending fast enough. So okay, yeah, bring, bring, bring, bring. And it's nice to see that even in such a big country they have projects a lot. So we'll go for it.

Nick Coulter: Then secondly, you mentioned 5 million of synergies to date. So any early thoughts on where that could grow to?

Johan: I think that's kind of the bulk of the synergies because it was more in the central costs. So we have captured those and there's no more to come.

Nick Coulter: They will annualize, will they?

Johan: Yes, correct. Well, No. So, they are already annualized, the way to think about it. So we got the bulk of them in the first half.

Nick Coulter: And then a couple of financial ones if I may. Firstly on the finance charge, is it possible to talk about your full year expectation and kind of the bridge year over year on cash interest. Because that there are a number of moving parts in the mix.

Johan: So the cash will be, the debt is continued to go down.

Nick Coulter: The cash interest charge?

Johan: Cash interest. Because you know, we amortize 40 million, we'll amortize another 40 million. So gradually for the year, I don't think there will be a lot of movement year on year. Because we have the engine RCF that we drew down. They, say call it the hedge, the swap element is really driven where interest rates are. So probably that will remain given that interest rates continue to go down. But it's a non-cash item. So I wouldn't, you know, expect that to have an impact on the cash payments.

Johan: So the interest expense, I think is probably in line with what we'll come back with last year in terms of the cash payments. Probably because we paid down 80 million, we drew down 62, so net cash payments on interest, I would say flat year on year.

Nick Coulter: Okay. Thank you. And then just any thoughts on long-term tax guidance? Obviously the rates kind of crept up a little bit.

Johan: So we'll see. We need a bit more time on the engine countries to really see how we can bring that high rate down. And then we have to look at Morocco because it's not clear if that's a permanent increase or just a temporary increase. So we'll continue to work on the tax rate, but it's, as I said a bit early, especially on the engine countries.

Nick Coulter: Super, thank you.

Giles Blackham: Any other questions in the room? Maybe we'll pause and just go to any questions on the line?

Alexander Mees: Alexander Mees, please go ahead. Thank you, and good morning, gentlemen. I have three if you have the patience for them. One is just on slide nine your heat map, which I think is superb. You focused on the markets that are going down. I just wonder if perhaps you could give some color on the markets, I think Angola, Madagascar, Senegal, Mali that were growing at more than 5% and if there's a specific reasons for that.

Alexander Mees: Secondly, I noticed the headlines that you signed an agreement with with Jumia to use our service stations as pickup locations for online shopping. Is that a material deal? I assume not, because you haven't talked about it today, but is there opportunities to spread that wider?

Alexander Mees: And finally seems to be quite a lot to do in Engen. And I wonder how much of your time, personally has been taken up with the integration and when I suppose by extrapolation, you have the capacity to pursue the next big deal? Thank you.

Christian: Should you answer the heat map Johan? Because it's your production. Not the content, but the map.

Johan: Again, Alex, it's a combination of factors. One clearly is just the economic background and how the country is doing overall. I think especially when you look at countries like Senegal and Mali, I think the other element is also to look at the expansion of our network. If you look at a country like Mali, we really have grown our business from, initially, there were 10 sites, now we're at 40 sites. That really allows us to continue to drive the like-for-like, as well as ongoing site growth. It's kind of what we expect Vivo Energy to be, is really the Mali and the Senegal's, but because of what we said that some of the

headwinds in the other countries, it's been less than what we expected it to be in the first half. That's on the first topic, on Jumia.

Christian: You should mention that what used to be small countries, the Burkina's, the Mali's, and even the Guinea's, et cetera, and even Madagascar, what used to be small countries are no longer small countries, because they are now contributing in a significant way to the bottom line. So it's exciting to see how we've managed to ramp them up. Johan was mentioning Mali, but believe me, Mali was really a very small OU. Now, it's an OU you are very happy to have with an EBITA that is contributing to the overall in a significant way. So that is the story. The story is that the smaller ones are no longer small. To extend that to the Engen countries, there are a lot of small ones. Believe me, in five years time, the small ones will no longer be small. We intend to ramp them up. Okay?

Christian: The second was Jumia. Jumia, when we talk about having partners around our sites, the halo effect, be it food and otherwise, when you talk about data, when you talk about digital, when you talk about the loyalty, when you talk of all this, the more partners you have in order to deploy that, it is fundamental. Loyalty without Jumia, there is something missing, because Jumia brings you ingredients for your loyalty. People will use it, and you can use Jumia to reward their loyalty. See what I mean? So we become, I guess, linked by that necessity. They need us and we need them, right? So it is a win-win link, and we will grow it. I'm quite excited by that. It's taken us about six months. It's quite fast, actually, to be where we are. And the more, the better. The more they drop, the more they pick up. I like it. The last one, what was that?

Johan: Engen.

Christian: Engen?

Christian: Is it? Oh, Engen. Listen, the reward is such that if it means that at the beginning some of us have to spend some time there, well, so be it. But we have to spend some time at the beginning in order to push it, and we will push it. I guess we will spend less time in the years to come. But it's a new baby and you have to take care of it, and believe me, I do. Huh, Johan? We do.

Johan: Maybe just, Alex, just to remind people, we have a decentralized model. So we have country teams fully staffed in each of the countries. The same in Engen. I think we just need to spend a bit more time to make sure we have the right teams on the ground. There's also an executive vice president covering these countries, so he's the first point of call. Clearly, he's busy making sure that we have the pieces in place. But we are, and remain, a decentralized business where the accountability sits in the countries.

Christian: Yeah, and we added about 20 people centrally in order to bring the support to these new countries. So we recruited or promoted or moved teams who know the Vivo way, in order to avoid bringing somebody who has to learn. The teams

they have in support are people who are knowledgeable and therefore they support them. And also we put in place a tutor ... Is it tutor is the word?

Johan: Tandem. Tandem partner.

Christian: A tandem, yeah. There's a tandem partner. Everybody in the Engen organization, the MD has a tandem. He has another MD whom he can call and say, "By the way, I have a bug here, how do I figure? How do you do it in your world?" The same with the FM, the same with the commercial. Everybody has a tandem, and like this, at least we don't waste time going up and down and sideways. Because the problem is with new teams, a new organization, they don't know who to talk to at the beginning. So you immediately have to plug them in, into the organization. The best thing is just to make sure they all have it a tandem, and that's what we did from day one. So they know who to talk to. They don't want to come and talk to me. I'll stress them too much.

Alexander Mees: Just to be clear, Christian, your preoccupation with your new baby of Engen doesn't necessarily preclude you thinking about the next baby that may be coming down the line.

Christian: No, no, don't worry about it. I only sleep five hours a night so I've got plenty of time during the day. No, no. We keep our eyes wide open, and our ears also, for the future and the future opportunities. If they come, believe me, we'll look at them seriously and go for them.

Alexander Mees: Right. Thanks. Well done.

Christian: Another question?

Speaker 5: Simon Irwin, please go ahead.

Simon Irwin: Morning, everyone. Apologies if you've covered these, because I was late to the call, but three quick ones. Firstly, where are we with the DRC? Is that still that a kind of potential subsequent bolt on? Secondly, can you talk us through where we are in terms of base oil prices and costs pass through within the lubes market? Thirdly, within Engen, are there any markets where you feel that the local team simply isn't strong enough and you are having to make material changes?

Christian: Okay. DRC, you know the story. It was carved out from the initial deal and it's put aside. It's still in the hands of Engen to bring back on the table and we are waiting for it. I don't think it has progressed to date. The second, one was what?

Johan: Yes, Simon. On bas oils, we now fully recovered the pricing on the Shell branded lubes, and the unit margin is back to 550, but you can see there's a dilution effect from the Engen lubes, which are unfortunately not capturing the full Shell margin. Then there was a question on Engen, if there were weaker teams.

Christian: Oh, the teams. Well, there has been, and there will be, I guess, teams moving in and out, coming in from Vivo, coming in from the outside market. This is a normal. We did it in Vivo in the first years. We will do it in Engen. The idea is to inject new talent with different profile and different origins, and to make sure that we have the right teams in place. It will take nine months or 12 months, but we will do it. The important thing, and if you want to win, and we've seen it in all our other countries, you have to have the right team. If you don't have it, well, we'll replace the teams. That's how we do business. So when I talk about refreshing, in all the countries, they know what I'm talking about. Any other questions?

Speaker 5: There are no further questions in the queue.

Giles Blackham: Thanks, operator. We'll just come back to the room just to see if anyone else has a question here. There's one more just over here.

Giacomo R.: Hello. Giacomo Romeo from Macquarie. I think just wanted to very quickly look at your commercial business. You mentioned some material tenders wins. Was wondering if you have any idea, or whether you can quantify what sort of expected impact it will have on volumes and what sort of margin will you expect if it's a creative to your existing margin or not. And then whether there should be any other tenders we should be aware of in the second half that could be material.

Christian: We don't divulge volumes and margins. Mining firms and the tenders are important, so I would say if I would give you a hint, it is public, so you can go and look at the recent tenders. So it's there. These are usually big companies and the information is available, so you can have a good idea of what we're talking about. You will not see the margins, be it for fuels or lubricants. But they're usually five year contracts. Right? So this, the three are new ... Sorry. One was renewing and the other two were new. So it will bring a plus to 2020. One of them will start in October, so the impact will be in 2020. But you see, you have to realize, you lose some, you win some.

Christian: In this year, we've won more than we lost. We haven't actually lost any, so it's pretty good. Okay. But I can't say that I will only add on. Sometimes, I'm afraid you lose. Because it's the same thing as I was saying earlier on, you walk away when you don't want to go for it. There's a limit to where we will not go, and that's it. In this case, our teams were really effective. We had been working on that client ... I'm talking of the new one, the big one ... for nine months a year by visiting, by showing that we can bring different solutions, be it technical or otherwise. We did agnostics, audits, and saying, "This is not the right way of doing it." We managed better. We can put in place new software's to manage this and that and that and that.

Christian: Of course, you get that plus, all right? And then our teams, we know, made sure that during the tender process we were there all the time. Listen. React. Then as I said, they went to Moscow, they spent three days there, tried to answer the

last questions. We were very pleased a month ago to be awarded the contract, and even more pleased when they found out that they took it from somebody I knew. So, that's life. That was mining, three of them. Aviation also, we won three major contracts, but we also lost some. This is where our vision, we're very prudent. It's you win some, you lose some. The important thing is to defend your margin, in aviation. I answered like a politician without giving you much information.

Giacomo R.: Thank you.

Christian: I'm becoming good, so be careful. Over the years to come, I will become more and more a politician. I've been well trained by these bankers. Some other bankers. And comms.

Giles Blackham: I think there's one more question

Christian: They're afraid. They're afraid I might say things now.

Anna Patrice: Yes, hello. Anna [] from Berenberg. Apologies, I don't know extremely well your company, so some basic questions. Looking at the volume split, 30% comes from the commercial. Obviously everyone well, I know in this room, but there are certain concerns about the macro slow down, et cetera. So from your previous experience, how cyclical or not so cyclical your commercial part of the business can be? That's first question. The second question on the retail side of things, with the cash profit, gross cash profit, you are targeting to increase the non-retail one and you're doing very good job here. What are your aspirations when we see each other in five year time, for instance, what's part of their gross profits would come from non-fuel retail and how your joint venture could help here to drive this?

Christian: You want to talk about the cyclical, the resellers and all that, Johan, the commercial?

Johan: Commercial volume, the way we think about it is the core commercial, which also includes LPG, for example. So that is quite stable and we see demand growing for LPG, especially the bottled products. Then there's a core commercial-

Anna B: Why is it stable?

Johan: It's growing because people need heating and cooking. That's LPG on commercial. Then you have transport. Again, these are long-term contracts, one to three years. Continue to have more trucks on the road. Yes, maybe there's a bit of substitution we have a ... Generally, that's growing. Having said that, in Kenya, there was a railway that opened, so we saw some reduction of trucking, because now it moved from trucks to railways. But that's, for now, a small negative. But overall, the core commercial, we see growing. Aviation and

marine, and then we have the reseller business, as Christian said, long-term with GDP, with infrastructure investments, we expect both aviation and marine to grow.

Johan: However, the way we manage it is there's a bit more volatility and less predictability in the earnings. As I said, we actually did quite well in aviation in terms of volume, which we didn't show. But marine unfortunately is bunkering. It's having the right product at the right time, at the right price, specifically. We're not willing to sell at those prices. So it's growing long-term. Then the final element in mining. Mining is picking up. But again, if natural resources ... if China is, buying less, clearly that will impact the mining. But we see actually the last couple of years, and that's why you mentioned the tenders, there is a pickup in mining and we see more activities. I don't know, I think there's, is it 350 mines-

Unknown: Yeah, projects.

Johan: .. being projects in the pipeline across across our countries. Now when will they come online and will it be all tomorrow? No, it will not be tomorrow. But clearly, there is this general trend of commercial business going up. Then the reseller business is really it's a trading business. It's a bit like marine and aviation. It's very hard to predict. In terms of the retail ... Let me also take. The non-fuel retail, we gave guidance. I mean, it grew 32% in the first half, which really is 15% coming from the Shell brand of countries, and then we had the, the Engen impact. We continue to commit to the 15% year on year growth in gross cash profit from non-fuel retail. Having said that, it's still a relatively small business.

Johan: Now will it grow? Absolutely, it'll grow. Will it grow to 50% in the next five years? It will not grow to 50%. What we're trying to do through these joint ventures is to really accelerate the rollout, especially of the quick service restaurants. Because we've found that it's very important to have the right partners so that we offer, as Christian said, a fuller customer proposition to the people coming to our sites. So we stick to the 15% growth per year for the non-fuel.

Christian: 70% of our EBITA or 60% of our EBITA, you saw it from the slide there, if I'm not mistaken, is retail. You can see the quantum. However much you will accelerate and push the food and all that, it will have a challenge to overtake it. It would represent something. When we add all this, it is natural hedges, right? You're adding more activities around all your sites in order to hedge any bad times which can happen. So the more we add, the better we are, and the more partners we have, the more we are all hedged together. We rely on each other and therefore it makes it a solid proposition. That's why Jamia, KFC, Burger King, you name it, all our partners are good partners. Even when we talk of pharmacies, it's good, because you're creating flow. More and more people. ATMs, why not? You put ATMs.

Christian: What else do we have? Laundry services. Did I know that I would have laundry services in our petrol stations a couple of years ago? No, but we do now. What else? We sell insurance. Would I imagine selling insurance? Yes, we sell insurance. Why not? Because all our taxis are not insured. So when you tell him, "Listen, for \$1, I will insure you per day. Then I can insure you for \$5 for the week. Then I can insure you for \$20 for the month," so then he insures himself. Then you put him on a contract for six months, and once you've sold that, you then sell him insurance for his house, or I don't know, et cetera, et cetera. So then you get insurance partners to follow you. It is a package, right? Not only selling fuel. It's overall services, which becomes something which is attractive to as many people as possible. And they don't forget. Done?

Giles Blackham: Yep. Thank you very much, everybody.

Christian: Thank you.

Giles Blackham: I think we can draw it to a close there, but we're available for further questions later on if you need. Thank you.

Johan: Thank you.

Christian: Thank you.